

CALCULUS EIS FUND & CALCULUS VCT PLC

Calculus Capital Limited

	Positives	Issues
Why invest	<ul style="list-style-type: none"> ► Strategy: To invest in a portfolio of more established unquoted companies with growth potential to attain capital appreciation. 	<ul style="list-style-type: none"> ► EIS: time to invest: Calculus is looking to reduce the current target of 18 months. ► VCT: exposure level: Recent fund raises mean just over half the assets are invested.
The Investment Manager	<ul style="list-style-type: none"> ► Team: One of the longest standing managers in the VCT/EIS area, Calculus has a highly experienced and stable team. 	<ul style="list-style-type: none"> ► Past performance: Write-offs over the past couple of years have adversely affected the company's previously very good performance. An average realised 9% IRR is still credible.
Nuts & bolts	<ul style="list-style-type: none"> ► Offer period: The EIS closes on 31 August 2019. The VCT has an open offer for the 2019/20 tax year. ► Diversification: The EIS aims to invest in between six and ten companies. The VCT's existing portfolio has 27 investments with a weight of over 1%. ► Valuation: Investors will receive valuations twice a year. Industry guidelines will be used, with two auditors examining the figures. 	
Fee issues	<ul style="list-style-type: none"> ► Fees: Mixture of direct fees and charged via the investee companies. ► Performance fee: EIS: 20% on gains over a return of total capital invested; VCT: 20% on investor share of proceeds over 105p for every 100p invested. 	
Risks	<ul style="list-style-type: none"> ► Risk mitigation: The aim is to diversify by sector and the focus on more established companies should also help mitigate some of the risk. ► Target return: Overall, the strategy is medium risk relative to other EIS/VCT products, with the target company IRR of 20% and capital return of 2.5x towards the top end of what we would expect for that risk category. The VCT targets an annual dividend of 4.5% of NAV, while also providing capital growth. 	
	Manager information	Manager contact details
Analyst	<ul style="list-style-type: none"> ► Scheme assets: EIS: £6m, VCT: £2.6m ► Scheme target: EIS: £20m, VCT: £10m ► EIS assets: £158m / VCT assets: £12m ► Total FUM: £170m ► Fund launch date: EIS: 2018 – evergreen / VCT: 2015 	<p>Investor Relations team Phone: 020 7493 4940 Madeleine Ingram, Head of Investor Relations and Marketing Email: Madeleine@calculuscapital.com</p>
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Fund aims

Calculus EIS Fund is a complying EIS fund, which will invest in between six and ten companies. The target return for each investee company is an IRR of 20% with a return of £2.50 for each £1 invested. Returns will be focused on capital gains and investors are unlikely to receive any dividends. The aim is for the assets to be invested over the 18 months from closure of the tranche.

The VCT aims to generate sufficient returns to maximise tax-free dividends while giving capital growth over the medium-to-long term. The current fundraising is for Ordinary shares, which will have an income target of 4.5% of NAV. Returns will be generated by investing in a portfolio of mainly unquoted companies with identical criteria to the EIS Fund. The current offer is to raise £10m, with a £5m over-allotment facility.

Summary of risk areas

Note: there are generic risks related to investing in EIS, VCTs or unquoted companies in addition to the specific ones commented on below. Comments on relative risk refer to other EIS/VCT investments and not to wider investments.

Investments

Portfolio risk

Each investment will be into a company with growth potential. As the portfolio will invest in more established companies than some VCTs and most EIS funds, there could be some economic sensitivity; however, we would expect idiosyncratic risk to dominate.

The target for the EIS Fund is for investors to receive shares in six to ten companies. There will be sector diversification, with approximately a third in each of healthcare, technology-enabled businesses and others.

The VCT has an existing portfolio of 27 significant investments, which constitute just over half the existing NAV. There will be sector diversification, with no more than 20% in one sector.

The target company IRR of 20% and multiple of 2.5x is at the upper end of what should be expected for what is, in EIS and VCT terms, a medium-risk strategy.

Sourcing and external oversight

Calculus describes itself as having 'privileged sources of deal flow'. Historically, it has managed to find sufficient investments, usually with little competition from other investors. The deal flow has increased in the past couple of years. The Calculus VCT will usually co-invest alongside the EIS Fund.

The investment process up to the offer is entirely internal to Calculus. The majority of the Directors on the Investment Committee are not involved in deal negotiation/diligence, bringing an independent oversight to the decision-making process.

Ongoing support and monitoring

As is the case with many EIS & VCT managers, Calculus takes a position on the boards of investee companies. Support goes beyond that, with a combination of guidance and mentoring for management. The latter, unusually, includes a CEO/CFO forum,

bringing together all the investee companies to share experiences and solutions. It may also appoint an appropriately experienced non-executive director.

Exits

The intention is that exits will come through trade sales or other normal exit routes such as IPOs. This is supported by its track record.

Manager

Team

Calculus is one of the longest-established EIS managers, having been investing since 1999. Its two founders are among the most experienced in the industry. The majority of the 10-person investment team are accountants and bring a broad range of fund management and corporate finance experience.

Track record

Calculus has built up an extensive track record over its existence. To the end of September 2018, it had invested in 68 companies with 35 exits (some partial). The latter have achieved a median IRR of 9% – short of the Calculus target, but still credible. The realised track record has been adversely affected in the past couple of years, with several previously written-down investments being written off.

Regulation

Product

Advance Assurance will be sought from HMRC for each company investment in the EIS Fund. Having raised significant capital in recent years, just over half of the VCT investments by value are VCT Qualifying.

Manager

The Fund Manager is Calculus Capital Limited. It is FCA registered (number 190854) with fund management and custodian permissions. Submissions to Companies House appear to be up to date.

Risk analysis/commentary

Calculus Capital is one of the longest-standing managers in the EIS/VCT area, and has established a good reputation and a considerable track record. The investment process is clear and well-articulated. While it has much in common with other managers, the emphasis on relatively more established companies, the substantial size of investment and the way it relates to management bring distinctiveness, as well as some risk management.

The focus on somewhat more established VCT/EIS-eligible companies is becoming rarer within the funds in the sector. This focus should bring risk benefits for investors, although with the trade-off that the fund is unlikely to produce many companies with spectacular returns either.

The expected diversification within each product might be limited; although, for the VCT, this will improve as cash is invested. Individual investments should largely perform independently of each other. However, as the companies are more mature than many other EIS, they could show some correlation. Investors should consider this product in the context of their whole portfolio.

Factsheet

Calculus EIS Fund		
Product name	Calculus EIS Fund	
Product manager	Calculus Capital Limited	
Investment adviser	N/A	
Tax eligibility	EIS	
Target return	For each company, an IRR of 20% with a return of £2.50 for every £1 invested	
Target income	None	
Type of product	Complying EIS fund	
Term	3-7 years	
Sectors	Generalist	
Diversification:		
Number of companies	6-10	
(Expected) Gini coefficient	0.1-0.167	
Fees	Amount	Paid by
Initial fees:		
Transaction fee	2% (excl. VAT)	Investor
Non-advised investor fee	1% or 2% (excl. VAT)	Investor – see report for details
Dealing fee	0.65%	Investor
Arrangement fee	1.9% (on average)	Investee company
Annual fees:		
Administration fee	1.5% (excl. VAT) of NAV, payable quarterly in arrears	Investor
Audit and legal fee	0.1% (excl. VAT) per quarter	Investor
Monitoring fees	Average £16,000 per company	Investee company
Director's fees	Average £14,000 per company	Investee company, if applicable
Exit fees:		
Performance fee	20%	Investor share of proceeds after return of original capital
Dealing fee	0.65%	Investor
Advisor fee facilitation		Yes
Advisor fee amounts		As agreed with investor
HMRC-approved fund		No
Advance Assurance from HMRC		Yes
Reporting		Semi-annually
Minimum investment		£50,000
Current funds raised		£6m
Fundraising target		£20m in current financial year
Closing date(s)	Quarterly on last Friday of October, January, April and June	
Expected exit method	Trade sale, IPO or other exit opportunity	

Source: Calculus Capital Limited, Hardman & Co research

Factsheet

Calculus VCT plc		
Product name	Calculus VCT plc	
Product manager	Calculus Capital Limited	
Investment Adviser	NA	
Tax eligibility	VCT	
Target return	For each company, an IRR of 20% with a return of £2.5 for every £1 invested	
Target income	4.5% of NAV	
Type of product	Venture Capital Trust (VCT)	
Term	VCT is ongoing, but investments expected for 3-7 years	
Sectors	Generalist	
Diversification:		
Number of companies	27	
Gini coefficient (current investments only)	0.046	
Fees	Amount	Paid by
Initial fees:		
Advised investor fee	3% of NAV	Investor
Non-advised investor fee	5% of NAV	Investor – see report for details
Arrangement fee	1.9% (on average)	Investee company
Annual fees:		
Management fee	1.75% (excl. VAT) of NAV	VCT
Secretarial services	£15,000 (excl. VAT) p.a.	VCT
Monitoring fees	Average £20,000 per company	Investee company
Directors' fees	Average £14,000 per company	Investee company
Fee cap	3% of NAV p.a.	See Fees section
Exit fees:		
Performance fee	20%	Investor share of proceeds in excess of 105p
Advisor fee facilitation	Yes	
Advisor fee amounts	Up to 2% initial commission and 0.5% trail, subject to 3% maximum and to investor agreement	
HMRC Approved fund	NA	
Advance Assurance from HMRC	Yes when investing alongside EIS	
Reporting	Semi-annually	
Minimum investment	£5,000	
Current funds raised	£2.6m in current offer	
Fundraising target	£10m in current offer	
Closing date(s)	3 April 2019 for 2018/19 tax year and 30 August 2019 for 2019/20 tax year	
Expected exit method	Companies: trade sale, IPO or other exit opportunity. VCT: share buyback.	

Source: Calculus Capital Limited, Hardman & Co Research

Notes

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